



Senators Feinstein, Cantwell, Wyden Urge Administration to Stop Protecting Energy Companies at the Expense of American Taxpayers

November 2, 2006

Washington, DC – U.S. Senators Dianne Feinstein (D-Calif.), Maria Cantwell (D-Wash.), and Ron Wyden (D-Ore.) today sent a scathing letter to the Administration, calling on the Interior Department to stop protecting energy companies at the expense of American taxpayers.

In a recent *New York Times* article, it was reported that the Interior Department decided not to seek repayment of disputed amounts from Chevron Corporation identified by the Department's own auditors. The consequences of this decision could cost the Treasury Department hundreds of millions of dollars in royalties from other energy companies drilling in federal lands and waters.

“We continue to be dismayed that the Interior Department is abdicating its responsibility to collect royalty payments from the oil and gas industry producing on federal lands and waters,” the Senators wrote in a letter to Interior Secretary Dirk Kempthorne.

“It is obvious that the Interior Department is spending too much time protecting the oil and gas industry and too little time protecting the American taxpayer. It is time that the Department do its job, thoroughly audit oil and natural gas companies, and collect all the royalties that are due to the American taxpayer.

Senator Feinstein also cosponsored a Committee-approved amendment to the FY 2007 Interior Appropriations bill with Judd Gregg (R-N.H.) that would help the federal government recoup billions of dollars in lost oil lease royalties. The amendment requires that companies interested in bidding on new oil or natural gas drilling leases on the Outer Continental Shelf must agree to renegotiate their existing contracts on which they are paying no royalty payments as a result of the government error.

Specifically, the amendment would bar the Secretary of the Interior from using any funds to issue new oil or natural gas production leases for drilling on the Outer Continental Shelf to any person who holds an OCS oil and gas production lease but does not pay royalties on oil produced from the lease, based on price thresholds as determined by the Secretary of Interior.

Essentially, the amendment provides energy companies with a choice:

- They can keep their existing leases royalty-free if they so choose, but be barred from bidding on new contracts, or
- They can agree to renegotiate these leases in good faith and be able to participate in the bidding for new leases.

The amendment is similar to one that widely passed the House of Representatives by a vote of 252-165. The House measure was introduced by Representative Maurice Hinchey (D-N.Y.) and amended by Jack Kingston (R-Ga.).

The following is the text of the letter sent today by Senators Feinstein, Cantwell, and Wyden to Interior Secretary Kempthorne:

“We continue to be dismayed that the Interior Department is abdicating its responsibility to collect royalty payments from the oil and gas industry producing on federal lands and waters.

First, we learn that the industry has signed leases with the Department in 1998 and 1999 that did not include a price threshold to ensure that royalties are paid at times of high oil and natural gas prices—costing the American taxpayers \$10 billion over the next 20 years. The House of Representatives and the Senate Appropriations Committee approved an amendment to the Interior Appropriations bill requiring companies to either renegotiate their leases to include a price threshold or forfeit their opportunity to apply for new leases. We anticipate that this will remain in the final Interior Appropriations bill, and expect it to allow the Department to recoup the \$10 billion owed to American taxpayers.

And now we are learning that the Department has ignored findings of government auditors that would have ensured that oil and gas companies are paying oil and gas royalties as required by law.

Two *New York Times* stories have highlighted specific instances where the Department has failed to aggressively audit and collect royalties. Yesterday’s story details how the Department let Chevron continuously underpay its royalties for natural gas produced in the Gulf of Mexico, and has now decided not to seek repayment of disputed amounts identified by the Department’s own auditors. This is not just a Chevron issue—it may set a precedent and send a signal to the rest of the oil and gas industry that they do not need to pay the federal government the full amount owed on natural gas produced from federal waters. This decision could allow energy companies to avoid paying hundreds of millions of dollars in royalties.

The *New York Times* reported on September 21, 2006 that four Interior Department auditors have filed a lawsuit against the agency after senior agency officials suppressed their efforts to collect more than \$30 million in fraudulent underpayments of royalties by oil and gas companies that drill in the Gulf.

And these stories follow on scathing testimony by the Inspector General of the Interior Department, Earl E. Devaney, before the House Government Reform Committee on September 13, 2006 that “short of a crime, anything goes at the highest levels at the Department of Interior.”

It is obvious that the Interior Department is spending too much time protecting the oil and gas industry and too little time protecting the American taxpayer. It is time that the Department do its job, thoroughly audit oil and natural gas companies, and collect all the royalties that are due to the American taxpayer.

We appreciate your attention to this matter.”

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